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BRANCH WEEKLY CHECKLIST: Week of 29 MARCH

SECTION II (writer) (div) (ed) (time copy in) (stencil) ONE PICKUP?

A) GENERAL: MacARTHUR V. STATE / N. Shows on ONTRAPE WITH DUTCH "PACIFIC PACT" / Edited to PKI — 5 in all

B) JAPAN: 2 Gen 3 Specific — done by 12:00 (1) Scap outmaneuvered

C) N. KOREA:

D) S. KOREA: - 1 Peace negotiations New Ho Cabinet

E) CHINA: CP appeal to Overseas Chinese K.P. Wu Northwest Kadel — 50¢ skewed 13:30 (2) Peace talks start by 1400 by 1000

F) INDOCHINA: in — (3) French to sea started at 1400

G) SEA: Kowning — (4) Scap coming

H) MALAYA: X

I) BURMA: X

J) INDONESIA: Hatta to go — Released Coy 16:15 at — (5) Relative talks

K) PHILIPPINES: X

L) ANZAC: X

M) POA: X

SECTION III

DOCUMENT NO. 24
NO CHANGE IN CLASS. ☐
DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE:
AUTH: HR 70-2
DATE: 1-5-82 REVIEWER: 372044

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FAR EAST/PACIFIC BRANCH

OFFICE OF REPORTS AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 45
23 March - 29 March 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Recent propaganda broadcasts to Southeast Asia have highlighted the Chinese Communists' interest both in Overseas Chinese communities and in growing nationalism in that area (p. 2).

In Japan, the YOSHIDA Government has maneuvered SCAP into the position of "directing" that unpopular measures be incorporated in the new budget (p. 3).

President Rhee has followed up his announced intentions of last fortnight and relieved Lee Bum Suk as Korean Minister of Defense (p. 4).

Both Nationalists and Communists have named 5-man delegations to the Chinese peace conference scheduled for 1 April in Peiping. The quality of Premier HO's new cabinet, selected with the impending peace conference in mind, leaves much to be desired (p. 5).

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Premier Phibul's failure to remove General Kach from his position of authority in the Siamese Army may precipitate renewed disorders (p. 8).

A new UN directive to the Committee for Indonesia is expected to bring about a preliminary conference between the Dutch and Republicans (p. 9).

NOTE: A digest of Far Eastern comment on the Atlantic Pact appears in Section III.

The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in R/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

General

Chinese Communists propagandize Southeast Asia. In two significant North "B" Shensi broadcasts last week, the Chinese Communist Party (CCP) has demonstrated increasing interest in nationalist movements and Chinese minorities in Southeast Asia. A CCP appeal to the Indonesians, transmitted on 21 March, suggested that they avail themselves of "correct leadership" in their struggle for liberation and outlined the CCP formula whereby the success achieved in China might be duplicated elsewhere in Asia. The formula's three points, as detailed, were: (1) formation of a united front within the country; (2) establishment of an international united front with other anti-imperialist forces, particularly the USSR; and (3) development of a strong Communist Party. The CCP broadcast further characterized present Republican leaders as "old bureaucrats", "compradore bourgeoisie" and "fascist stooges of the Japanese".

At this time, when Indonesian extremists are gaining popular support at the expense of Republican moderates, such CCP propaganda might well make a deep impression. Such attempts at the extension of a Communist influence highlight the desirability of an immediate restoration of Republican leaders to their former positions of authority (see p. 9).

The second CCP broadcast, on 24 March, quoted Marshal LI Chi-shen, Kuomintang Revolutionary Committee leader, as protesting against "the brutal persecution of Overseas Chinese in Malaya---by the French aggressors in Vietnam and by the Fascist governments of the Philippines and Siam." The CCP radio went on to threaten leaders of Overseas Chinese communities who were still loyal to the Kuomintang, saying that unless they "immediately stop playing the role of flunkies of imperialists....(they)...will receive due punishment from the Peoples' Government." In exchange for loyalty to the CCP, Overseas Chinese were assured that the New China will give them strong support against the oppressive actions of local governments.

Overseas Chinese in Southeast Asia total some nine million and their wealth and influence is out of all proportion to their numbers. They rarely assimilate and their continued loyalty to China is largely non-political. Control of the Overseas Chinese would be a major political and economic asset to the CCP; "spiritual leadership" of Southeast Asia's discontented nationalists would be an even greater CCP asset. Chinese Communist propaganda can be expected to press aggressively towards both goals.

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General (continued)

SCAP to swap textiles for Dutch rubber. SCAP has requested Army approval of a trade scheme which would increase Japanese textile exports while adding to the US strategic materials stockpile. Dutch authorities in Indonesia need some $80 million worth of Japanese textiles but have only $55 million set aside for that purpose. Additional ECA funds which could have closed the gap have become unavailable as a result of the Netherlands "police action." SCAP has proposed, therefore, that the US Bureau of Federal Supply increase its rubber purchase program in Indonesia with the Dutch receiving Japanese textiles as payment for the extra purchases. While this triangular trade system would help both to lessen the US economic burden in Japan somewhat and to increase US rubber stockpiles, it would also provide the Dutch with both goods and dollars for economic warfare in Indonesia. "C"

JAPAN

Conservatives resist SCAP budget proposals. Preparation of the Japanese budget for the coming fiscal year is providing an indication of increasing Japanese Government resistance to direction from SCAP. "B"

The YOSHIDA cabinet was committed by campaign promises to economic measures favoring the vested conservative interests supporting the Democratic Liberal Party. Prominent among these aims were: abolition of economic controls within the extent permitted by the nine-point economic program, revision of taxation, discontinuance of the transaction tax, and government assistance toward Japanese recovery. On the other hand, Joseph Dodge, SCAP's financial advisor, believes that such measures cannot be reconciled with Japan's straitened economic conditions. SCAP's recommended budget provisions, first offered as "suggestion," aroused a storm of controversy among Democratic Liberal leaders, especially those of the ultra-conservative factions. Resorting to procrastination, the Party succeeded in putting off a final decision on the budget until something more decisive than a "suggestion" came down from SCAP. Last week, Dodge "directed" the Japanese Government to have a budget incorporating his proposals prepared for presentation to the Diet by 10 April.

The Democratic Liberals, by waiting until a definite order came down from SCAP, thus saved themselves from the embarassment of being directly responsible for advocacy of an unpopular budget.

This active participation by SCAP, in addition to further discrediting the SCAP-induced myth of Japanese control over Japanese actions, may provide propaganda capital for extreme nationalists of both right and left.

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JAPAN (Cont.)

Communists trail in Japanese local elections. The Japan Communist Party (JCP) in recent local elections has been trying to capitalize on the remarkable showing made in the January national elections, when it jumped from 4 to 35 seats in the Diet's lower house. Employing the same anti-Occupation and anti-government propaganda line and freely predicting that it would duplicate its previous showing, the Party won only 4 out of 311 municipal and local seats and took none of the 49 seats vacant in 22 prefectural assemblies. While the JCP received fully as large a precentage of the popular vote as in the national elections, they appear to have been unable to concentrate their votes as successfully as in the January elections. "C"

KOREA

Assembly group asks US troop withdrawal. The United Nations Commission on Korea (UNCOK) has officially received a petition signed by 63 of the approximately 190 seated members of the National Assembly requesting withdrawal of US troops from Korea. Vice-Speaker Kim Yak Soo led the ardent nationalist petitioners who still naively believe that a satisfactory non-Communist solution for Korean unification can be found if the US and the USSR withdraw completely and leave the Koreans to their own devices. His latest move in appealing to UNCOK to enforce US troop withdrawal will draw bitter denounciations from Rhee and will probably intensify Rhee's determination to restrict UNCOK's freedom of contact with the Korean people. "B"

New Defense Minister appointed. President Rhee, in a long-expected Cabinet change, named Shin Sung Mo, former Minister of Home Affairs, to replace Lee Bum Suk as Defense Minister last week. (See B/FE Weekly #34.) Lee retained his post as Prime Minister. "C"

Shin Sung Mo served for many years as a master in the British merchant marine and probably will give increased attention to the neglected Korean Coast Guard. Shin is supposed to have been a Lee man when he returned to Korea in 1948, but his principal loyalty now appears to be to President Rhee who has evidenced implicit faith in Shin's integrity and ability. During his brief tenure as Home Minister, Shin acquired the reputation of being an able administrator and has impressed US officials as one of Rhee's most capable Cabinet members.

The Home Ministry vacancy was filled by the former deputy, Kim Hyo Suk, a Democratic Nationalist. This move probably will satisfy the National Assembly recommendation for a full time Defense Minister as well as Democratic Nationalist Party demands for greater Cabinet representation.

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CHINA

Peace negotiations to begin on 1 April. Following the appointment of five Nationalist peace delegates by Acting President LI Tsung-jen's Cabinet, the Chinese Communist Party (CCP) named its own five delegates last week and agreed to begin peace negotiations on 1 April in Peiping. The CCP also announced that its Central Committee had approved Chairman MAO Tse-tung's "eight demands" as a basis for discussions, and notified the "Nanking reactionary government" to send with its delegates "all pertinent data" concerning those demands. "A"

The leading figures of the Nationalist delegation are SHAO Li-tze, onetime Ambassador to Moscow and CHANG Chih-chung, director of Nationalist Northwest Headquarters recently active in promoting a Sino-Soviet trade agreement in Sinkiang. Both have long advocated a negotiated peace. CHOU En-lai, a shrewd and adroit diplomat who has previously represented the CCP in peace talks with the Nationalists and was the chief Communist negotiator during General Marshall's mediation mission, heads the CCP delegation. LIN Piao, whose "Northeast People's Liberation Army" took Manchuria from the Nationalist Government and assisted in forcing the capitulation of Tientsin and Peiping is another negotiator. LIN, in a recent speech, reaffirmed the CCP's intention to control all of China, and stated that the CCP, while welcoming the "Peiping formula" of negotiated peace, is prepared to resort to the "Tientsin method" of military assault. Other CCP delegates are: (1) Gen. YEH Chien-ying, director of the Military Control Committee which rules Peiping and former head of the CCP's branch of Peiping Executive Headquarters during the Marshall mission; (2) LIN Po-chu, former Chairman of the CCP's Shensi-Kansu-Ninghsia Border Government; and (3) LI Wei-han, a member of the CCP delegation in Nanking during the Marshall mission. CCP Chairman MAO has transferred his headquarters and those of the Central Committee to Peiping and presumably will supervise the CCP's delegates.

The Nanking Government cannot possibly comply in full with MAO's eight demands. It can comply in full, if it wishes, with five: abrogation of the Constitution, relinquishment of the Kuomintang's prerogatives, endorsement of Communist "agrarian reform," cancellation of "traitorous treaties" and convocation of a political consultative conference to transfer power to a "coalition" government. Nanking can comply in part with two other demands: surrender of "war criminals" and confiscation of "bureaucratic capital," but many of the "war criminals" and much of China's monetary resources are inaccessible to the Nanking Government. The eighth demand--for "reorganization" of Nationalist armies--is the crucial one. By this, the CCP means simply the surrender and subsequent inclusion of all Nationalist forces in the CCP army. Even if the negotiators should promise to deliver the Nationalist armies for

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"reorganization," the Nanking Government does not have the power to deliver any significant part of the remaining anti-Communist troops in China. Thus the CCP will either: (1) settle for the partial compliance of LI's government with its demands and thereafter move its armies south to begin the complete realization of all by threat, or (2) force the negotiations to break down by insisting on compliance with all demands and thereafter resume actual military operations.

Premier HO organizes a weak "Peace" cabinet: HO Ying-chin's newly appointed cabinet, while giving the appearance of greater unity to LI Tsung-jen's government, is lacking in administrative competence. Although many able administrators declined offers of cabinet posts, LI strengthened his regional support to a limited extent by the inclusion of leaders of the Kwangtung and Shansi-Suiyuan military cliques in HO's cabinet. Among the more capable members of the new cabinet are Ministers without portfolio CHANG Chih-chung, CHANG Chun, and CHU Chia-hua, all holdovers from the defunct SUN Fo cabinet. S. Y. LIU, Governor of the Central Bank has been appointed Minister of Finance. Although LIU is an able and honest financier he is not considered capable of coping with the present chaotic economic situation. "B"

That the new cabinet's chief mission, is to present a suitable peace front in the coming negotiations with the Communists is evidenced by appointment of FU Ping-chang, Ambassador in Moscow since 1943, to the post of Minister of Foreign Affairs. This move reportedly was recommended by leading Nationalist peace delegate SHAO Li-tze, who has publicly denounced the Atlantic Pact as "rubbish" and urged the Government to remove all vestiges of anti-Soviet policy and atmosphere and assume a more neutral policy toward both the US and the USSR. FU's appointment however, does not reflect a fundamental change in foreign policy, since FU is believed to have little influence with Soviet officials.

Meanwhile, the National Government remains dependent on actual and potential US aid for survival. Premier HO has renewed recent Nationalist appeals for a sizable currency-stabilization loan, which he declares is essential to maintain his government in power. Moreover, he has instructed the new ministers to draft plans on which requests for other forms of economic aid can be based. Presently, HO can count only on ECA aid, chiefly in the form of much-needed commodities, which may serve to prevent economic collapse in important Nationalist cities during the next few months. Failure to obtain greatly increased US aid, to secure substantial Soviet support, and to achieve a peace settlement with the Communists probably will bring about the complete discrediting of Premier HO and Acting President LI and lead to the reemergence of President CHIANG Kai-shek.

K.C. WU attempts to resign as Mayor of Shanghai: A virtual "C"

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end to civil administration and a resultant period of unrest in China's largest city is presaged by K.C. WU's intention to resign his mayorship. Despite his record as a capable administrator and unquestioned loyalty to the National Government, WU has found his authority diminishing rapidly while that of General TANG En-po, Nationalist Commander of the Nanking-Shanghai-Hangchow area, increases. Several of WU's municipal bureau heads have already resigned but Premier HO Ying-chin and various local groups have urged WU to remain. However, it is doubtful if WU can be persuaded to continue as mayor since there is little chance that he can make a satisfactory agreement with TANG regarding the division of authority.

Should WU's resignation be accepted he probably will be succeeded by TANG's deputy, General CHU Shao-chou, recently Governor of Shensi, or by another of TANG's close associates. Such a change would lead to consolidation of military control over city affairs and to unpopular policies regarding taxation and finance, food supply, trade, and treatment of labor, as well as action against the local peace movement to which TANG is strongly opposed. Economic and political instability thereby would be greatly intensified.

WU's withdrawal from the Shanghai scene would not necessarily mean his departure from national politics; he has been mentioned several times as a successor to CHEN Cheng, present Governor of Taiwan.

Communists begin discussions on US trade: Communist Foreign Affairs officials in Tientsin made their first direct approach to American businessmen this week when the Communists met with the President of the Tientsin American Chamber of Commerce to discuss US controls and tariffs on Chinese exports and imports and the possibility of US trade on a barter basis. This meeting indicates that the depression in North China has probably forced the Communists to modify their hostility toward foreign businessmen. The action also reveals the Communists' ignorance regarding foreign trade; e.g., the US has no export tariffs and rarely trades with any country on a barter basis. A further reason for the approach is that the Communists probably have discovered it is less profitable to export goods destined for US markets (such as bristles and furs) via Hong Kong and South China ports than directly to the US. "C"

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Kach's removal essential to political settlement: It is becoming "g" apparent that failure by Premier Phibul to carry out certain conditions believed to have been established in the early March agreement with the Navy is further straining inter-service tensions. Although the existence of a political understanding has been denied consistently, it is believed that Phibul, under Navy pressure, agreed tacitly to reorganization of the government, revisions of the draft constitution and removal of "strong man" General Kach, Army Deputy C-in-C. In return, the Navy agreed among other concessions, to remove the Marine Commander who had been active in support of the Pridi group. The Navy carried out its part of the understanding and thus Phibul's failure to reciprocate has placed the Navy C-in-C in an embarrassing position with his subordinates, some of whom are reported considering support of Pridi's followers in event of another attempt to overthrow the government.

While the full ramifications of the Phibul-Kach relationship have not been clearly determined, Phibul, although finding his position increasingly difficult, evidently is unable to eliminate General Kach from his influential position in the present regime. Kach was instrumental in smashing the 26 February coup attempt and in directing the subsequent suppressive measures which have contributed to growing animosities. It is likely, therefore, that Kach's continued position of power, together with general dissatisfaction over the recently promulgated "royalist" constitution, may well precipitate further disorder.

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INDONESIA

Batavia discussions may ease Indonesian problem: A UN Security Council directive sent to the UN Committee for Indonesia (UNCFI) last week will probably pave the way for a resumption of negotiations on the Indonesian problem. UNCFI has been directed: (1) to submit a report on the damage to Jogjakarta; and (2) to assist the Dutch and Republicans in reaching a working agreement within the framework of the 28 January SC Resolution. In this connection, UNCFI has suggested that the Dutch and Republicans each send delegations to a series of discussions to be held in Batavia early in April. The proposed meetings will consider restoration of the Republican Government to Jogjakarta as well as conditions for the conduct of the proposed Hague conference. The Netherlands has already conditionally accepted the UNCFI invitation and plans to send Van Roijen, who recently represented the Dutch at Security Council discussions on Indonesia, as chief delegate. Although the Republic has not as yet indicated a willingness to participate, there is reason to believe that it will accept and will send a strong delegation after it has contacted its scattered leaders. "B"

The direct and immediate purpose of these meetings will be a cessation of hostilities and establishment of a time-table for the transfer of Netherlands sovereignty to a federated Indonesian government. Unless some immediate provision is made to terminate warfare in Indonesia, the economy of the area will be completely disrupted and moderate elements will lose their tenuous political control over the populace.

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SECTION III. B/FE DIGEST

Far Eastern Reaction to Atlantic Pact

Although reaction to the impending North Atlantic Pact has been generally favorable in the non-Communist areas of the Far East, the comment has had a distinct undertone of apprehension that the defense of Pacific nations will necessarily suffer neglect as a result of this primarily Western orientation. One immediate and widespread suggestion for avoiding this danger is the establishment of a "Pacific Pact" with objectives parallel to the Western alliance.

In Japan, the Vice Minister of Foreign Affairs appealed to Australia, the US and other nations of the Pacific and the Far East to join Japan in a Pacific defense treaty. The semi-official Nippon Times, in comment, suggested that even passive Japanese participation in some such arrangement would serve to check the spread of Communism in Japan.

President Quirino of the Philippine Republic, in urging a "Pacific Pact", has recommended that the US take the leadership in establishing such a form of collective security. Quirino wants Japan to be included in any alliance so that the former enemy state could be carefully observed and directed in the "right" channels.

Korea's President Rhee has supported Quirino's proposal with the statement that "a Pacific alliance will make any power think twice before planning another war."

In Australia, where agitation for some sort of a regional defense agreement has been intermittent since the end of World War II, recent Atlantic Pact publicity has revived the issue again. Government officials and the Australian press currently advocate various schemes. The most extensive of these envisions an alliance stretching from India to Chile; another is designed for Southeast Asian countries alone, while a third is restricted to Commonwealth countries. New Zealand has expressed parallel interest.

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